

# APPENDIX C

OFFICE OF THE CITY AUDITOR

CITY OF SAN JOSE

QUALITY CONTROL REVIEW

FOR THE 24 MONTHS ENDED JUNE 30, 2003

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## INDEPENDENT AUDITOR'S REPORT

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GERALD A. SILVA  
City Auditor

## CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

October 14, 2003

Honorable Members of the City Council  
801 North First Street, Room 600  
San Jose, CA 95110

Attached is the independent auditor's report that representatives of the National Association of Local Government Auditors (NALGA) prepared on October 1, 2003. Our comments in response to the audit report are also included. A member of the audit team, Mike Taylor, City Auditor for the City of Stockton, California, will present this report to the Finance and Infrastructure Committee at its December 10, 2003 meeting.

Should you have any questions, please contact me at extension 8338.

Respectfully submitted,

A handwritten signature in cursive script, reading "Gerald A. Silva".

Gerald A. Silva  
City Auditor

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GS:bh

Attachments



# External Quality Control Review

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of the  
**Office of the City Auditor**  
City of San Jose

Conducted in accordance with guidelines of the  
**National Association of Local  
Government Auditors**  
for the period  
July 1, 2001 through June 30, 2003

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## *National Association of Local Government Auditors*

October 1, 2003

The Honorable Mayor Ron Gonzales  
and Members of the City Council  
City of San José  
801 North First Street, Room 600  
San José, CA 95110

We have completed an external quality control review of the City Auditor's Office, City of San Jose, for audits issued during the period July 1, 2001 through June 30, 2003. In conducting our review, we followed the standards and guidelines contained in the *N.A.L.G.A. Quality Control Review Guide* published in May 1995, by the National Association of Local Government Auditors. We also used the companion N.A.L.G.A. publication, *Guide to Government Auditing Standards Amendment #3*, where appropriate.

As prescribed by the N.A.L.G.A. Guide, we reviewed the internal quality control system of your audit organization and tested a sample of audits conducted by your office for compliance with Government Auditing Standards issued by the Comptroller General of the United States. Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable Government Auditing Standards were followed in the audit work. We have also concluded from the sample of audits tested that the quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

It is our opinion, therefore, that the City Auditor's Office, City of San Jose, was in compliance with Government Auditing Standards during the period July 1, 2001 through June 30, 2003. We have prepared a separate letter to management which offers suggestions for further strengthening your internal quality controls.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas C. Jenkins".

Douglas C. Jenkins  
Deputy Director of Audits  
Milwaukee County, WI

A handwritten signature in black ink, appearing to read "Teresa Berkeley-Simmons".

Teresa Berkeley-Simmons,  
CIA, CGAP  
Audit Manager, City of  
Berkeley, CA

A handwritten signature in black ink, appearing to read "F. Michael Taylor".

F. Michael Taylor, CPA, CIA  
City Auditor, City of  
Stockton, CA



## *National Association of Local Government Auditors*

October 1, 2003

Gerald A. Silva, CPA, CGFM  
City Auditor  
City of San Jose  
800 South First Street  
San Jose, California

Dear Mr. Silva:

We have completed an external quality control review of the City Auditor's Office, City of San Jose, for audits issued during the period July 1, 2001 through June 30, 2003. We issued a report stating our opinion that your office complied with Government Auditing Standards (GAS). We are presenting you with this companion letter to highlight some of the areas where we believe your office has excelled and to offer some suggestions that may further enhance your internal system of quality control.

We want to start by mentioning those areas in which we believe your office excelled. Through observations, interviews and an examination of policies, procedures, and audit workpapers, we offer the following comments:

The City Auditor's Office has established a "corporate culture" that places a demonstrably high priority on consideration of, and adherence to, Government Auditing Standards.

The City Auditor's Office staff is comprised of exceptionally well-qualified and credentialed audit professionals.

The City Auditor's Office commitment to follow-up on all audit recommendations is commendable and exceeds the applicable GAS.

The above are a few of the qualities of your office that impressed us during the review. The following comments and suggestions arise from the peer review team's discussion of issues throughout the course of the review.

### **Independence (GAS 3.11)**

- Under the Government Auditing Standards Amendment #3 (the new Independence Standard) effective for audits initiated as of January 1, 2003, it is important for audit organizations to demonstrate that they have a process to formally consider any "nonaudit services" they may perform and to determine if they conflict with either of two overarching principles:

➤ *Auditors should not perform management functions or make management decisions;  
and*

- *Auditors should not audit their own work or provide nonaudit services in situations where the amount of service involved is significant/material to the subject matter of the audit.*

It is important to note that while only one of 19 audit reports included in this peer review period was initiated in 2003, the City Auditor's Office has already implemented a revision to its *Staff Advisory Sheet* that requires supervisors, as well as the City Auditor upon review, to formally consider these overarching principles for each person assigned to an audit. The City Auditor's Office policy and practice of including *Staff Advisory Sheets* in the workpapers provides appropriate documentation of these considerations.

However, the City Auditor's Office could strengthen its demonstration of compliance with the new Independence Standard by establishing a mechanism to demonstrate a similar process to formally document consideration of the two overarching principles for potential work that does not fall into standard audit assignments. Such a mechanism should include the ability to track individual staff members' hours of participation in nonaudit services to further bolster future decisions on audit assignments.

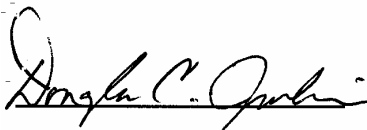
#### **Continuing Education Requirements (GAS 3.6)**

- We reviewed the City Auditor's records documenting compliance with the continuing education requirements. We sampled five of 18 individual files for detailed review and found that all files contained appropriate documentation of compliance with the requirements. However, two of the five contained documentation of participation in events that did not appear to meet the criteria established for qualified continuing professional education (CPE) credits as outlined in the Government Accounting Office's *Interpretation of Continuing Education and Training Requirements*. In both instances, the staff had sufficient CPE credits, excluding those questioned, to exceed the requirements.

The City Auditor's Office might avoid some confusion regarding the eligibility of certain non-audit training by maintaining documentation of nonaudit training (e.g., City administrative matters, etc.) in a separate file.

Additionally, City Auditor's Office staff and management periodically monitor compliance with CPE requirements with a *Continuing Education Report*. This report provides a running total for each staff member at any given time. These monitoring efforts might be enhanced by segregating cumulative CPE totals by year to allow for easy identification of staff in danger of violating the minimum annual 20 CPE requirement.

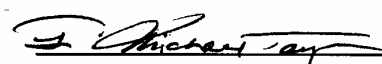
We appreciate the courtesy and cooperation extended by you and each of your staff members during our on-site review visit.



Douglas C. Jenkins  
Deputy Director of Audits  
Milwaukee County, WI



Teresa Berkeley-Simmons,  
CIA, CGAP  
Audit Manager, City of  
Berkeley, CA



F. Michael Taylor, CPA, CIA  
City Auditor, City of  
Stockton, CA



## CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

October 2, 2003

Mr. Douglas Jenkins, Deputy Director of Audits  
Milwaukee County Department of Audit  
2711 W. Wells Street, 9<sup>th</sup> Floor  
Milwaukee, Wisconsin 53208

Dear Mr. Jenkins:

The Office of the City Auditor submits the following comments in response to the audit of its operations.

I am pleased that the independent auditors did not find any significant weaknesses in the Office of the City Auditor's (Office) internal quality control system. The auditors stated that our system of internal control provided reasonable assurance of compliance with Generally Accepted Government Auditing Standards and met the objectives of the National Association of Local Government Auditors quality control guidelines during the period audited.

I am also extremely gratified that in the management letter the auditors noted a number of areas that the Office excels. These areas include:

- Establishing a "corporate culture" that places a high priority on consideration and adherence to Generally Accepted Government Auditing Standards.
- Hiring and developing well-qualified and credentialed audit professionals.
- Thoroughly following up on significant audit findings included in all audit reports.

The management letter also included two suggestions to improve the Office's operations and better demonstrate compliance with Generally Accepted Government Auditing Standards. We concur with these suggestions and will take appropriate steps to implement them.

The Office is committed to continuously improving and refining its audit processes. As such, we welcome the auditor's review and suggestions. We believe that their insights and perspectives will be helpful in improving the Office's work. We also wish to thank the auditors, Michael Taylor, Teresa Berkeley-Simmons, and yourself for the professionalism, openness, and courtesy they displayed during this audit.

Sincerely,

Gerald A. Silva  
City Auditor

GS:bh  
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